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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001485

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SUBJECT: TAIWAN BATTLES TO HOLD ON IN CENTRAL AMERICA
FOLLOWING LOSS OF COSTA RICA

REF: A. TAIPEI 01273

¶B. TAIPEI 01483

¶C. TAIPEI 01154

¶D. TAIPEI 01283

Classified By: AIT Deputy Director Robert S. Wang,
Reasons: 1.4 (b/d)

¶11. (C) Summary: Central America remains a major focus of Taiwan's diplomatic and foreign assistance programs following the loss of Costa Rica. Over half of Taiwan's foreign assistance is channeled to Central America, where six countries still recognize Taipei, and to the Caribbean, where Taiwan has five diplomatic partners. Costa Rica's recent decision to switch recognition from Taipei to Beijing has raised serious concerns here about Taiwan's long-term ability to compete against a "rising China." Taiwan MOFA officials see Nicaragua and Panama as potentially most likely to follow Costa Rica's lead in switching recognition to Beijing. Nevertheless, Taiwan still enjoys some competitive advantages in the region stemming from well-received business investment, assistance programs, and participation in a regional development bank. President Chen and Vice President Lu are scheduled to travel to Central America this summer to help strengthen ties with Taiwan's remaining allies there.
End Summary.

Central America the Key Battle Ground

¶12. (C) Accounting for a quarter of Taiwan's 24 diplomatic partners, Central America has garnered the lion's share of Taiwan foreign assistance and diplomatic attention over the past two decades. Over half of International Cooperation and Development Fund (ICDF), Taiwan's USAID equivalent, assistance is channeled to Central America and the Caribbean (Ref A). Taipei is also closely integrated into regional financial institutions, such as the Central America Bank for Economic Integration (CABEI), and is one of the largest providers of financial and humanitarian assistance to the

region. Taipei's stepped-up engagement with Central America dates to the early 1990s, when Taiwan developed a multilateral approach to solidify its diplomatic and economic ties with allies. Taipei is now attempting to replicate those efforts in Africa and the South Pacific (Refs B & C).

¶3. (C) Panama Ambassador Julio Mock recently told AIT that the strength of Taipei's engagement with Central American countries is based on its participation in regional banks, such as CABEI, and in regional fora, including the SICA (System of Central American Integration). Mock said that the May meeting in Belize between Taiwan and Central American foreign ministers was a good example of regularized multilateral exchanges that focus on financing new and ongoing development projects in the region. Mock stated that Taipei pours millions of dollars into individual countries and regional projects, for example by contributing USD 150 million to the founding of CABEI in the early 1990s and continuing contributions of about USD 20 million a year to the bank. Mock noted that the interest earned by Taiwan's loans and financing projects is then used to fund the operations of the Central America Trade Association in Taipei to encourage Taiwan investment in the region.

Costa Rica: A Linchpin Removed?

¶4. (C) Costa Rica's decision to switch recognition from Taipei to Beijing in early June, however, has raised serious doubts about Taipei's ability to compete against a "rising China." (Ref D) Despite Taiwan's success in wooing recognition from tiny Saint Lucia in May, the Costa Rica

TAIPEI 00001485 002 OF 003

switch reduces the overall number of diplomatic partners to 24, down from 29 when President Chen took office in 2000. Foreign Minister James Huang (Chih-fang) told AIT that Taipei is deeply concerned about its shrinking international space, particularly after the loss of Costa Rica. Despite his public announcements that the loss would not have a "domino effect" on Taiwan's remaining Central American allies, Huang said privately he is much less confident that Taiwan can hold on all of its remaining Central American partners, given China's growing influence and the leftist political tilt in Latin America. Huang noted that his ministry will be under great pressure over the next 3-6 months to prevent any additional diplomatic losses as it works to shore up relations in the region.

¶5. (C) Tamkang University Professor Kung Kwo-wei told AIT that Costa Rica was the "centerpiece" of Taiwan's diplomacy in the region. Its loss represents a "major blow" to Taiwan both economically and symbolically because Beijing now has another base besides Mexico in the region from which to continue efforts to undermine Taipei's position. Outgoing Costa Rica Ambassador to Taipei Mario Chea told AIT before the break that despite enjoying over 60 years of close relations with Taipei, San Jose simply could "not ignore" Beijing. Chea said that Taiwan had on numerous occasions implored Costa Rica to slow its trade with China, but he observed, "If Taiwan companies do business with the PRC, why can't Costa Ricans?" Chea complained that Taipei has done little to increase Taiwan direct investment in Costa Rica from the levels reached 20 years ago, explaining that the trend has actually gone in the opposite direction with textile factories moving out to neighboring countries with lower labor costs.

¶6. (C) Despite the loss of Costa Rica, Professor Kung Kwo-wei suggested that other Central American allies are unlikely to recognize Beijing in the near term out of concern to maintain their own foreign relations stable. Kung explained that each country in Central America has its own particular interests in maintaining relations with Taiwan. If a key partner such as Costa Rica or Panama switches recognition to Beijing, however, it does encourage other

Central American states to begin reassessing their relationship with Taipei, Kung added.

The Fight is On for Nicaragua and Panama

¶7. (C) Taiwan MOFA officials see Nicaragua and Panama as the most likely countries in the region to follow Costa Rica's suit. Foreign Minister Huang admitted that Nicaragua is now Taiwan's most tenuous relationship in the region. He revealed that during his May visit to Managua President Ortega said he was facing strong pressure from his party, as well as urging by Castro and Chavez, to establish diplomatic ties with Beijing. Huang believed he had managed to convince Ortega, for the moment, that keeping ties with Taipei sends a positive message to the U.S. and others that the Ortega administration values stability. Huang explained that Taiwan, as Nicaragua's largest foreign investor whose companies employ about 25,000 people, has more economic clout there than in Honduras or Guatemala. Taiwan has pledged to work with Ortega on poverty alleviation programs and to help Nicaragua expand its production of electric power.

¶8. (C) Heading the drive to keep Taiwan's remaining allies on board, President Chen Shui-bian is scheduled to attend a heads-of-state summit August. Vice President Annette Lu will be making her own trip to the region next week, visiting Paraguay for the 50th anniversary of Paraguay-Taiwan relations and stopping in the Dominican Republic, Guatemala and perhaps Panama. Foreign Minister Huang told AIT that he

TAIPEI 00001485 003 OF 003

would also be sending a "special envoy" to the region soon to help shore up relations. As part of those efforts, Taipei has also appointed a new ambassador to Nicaragua.

¶9. (C) Professor Kung said that despite Nicaragua's potential vulnerability after the election of President Ortega, Taiwan's strong business presence and generous financial assistance are too important for Ortega to ignore. Panama, on the other hand, has seen growing investment by Beijing in the canal and associated service sectors, and could be more susceptible, Kung suggested. Panama, like Costa Rica, has the ambition to serve as the "Switzerland" of the Americas and as such might find it advantageous for strategic reasons to eventually go with Beijing.

¶10. (C) Panamanian Ambassador Julio Mock told AIT that Panama-Taiwan relations remain solid and are not expected to change under the current president's term, which expires in ¶2009. While China is a big market, Mock acknowledged, Panama finds it easier to work on trade issues with a small country like Taiwan, which is more willing to fund regional development projects. Mock noted that an important component of Panama's continuing support for Taipei is its belief that the U.S. implicitly supports such a position.

An Uphill Struggle for Taiwan?

¶11. (C) Despite Taipei's loss of Costa Rica, Taiwan still enjoys some advantages as it competes with Beijing in the region. As the number of its diplomatic partners has dwindled, Professor Kung noted, Taipei is better able to focus its attention and assistance on those countries that remain in its camp. Also, according to Kung, Taipei has proven more capable than Beijing in following through on promises of aid and investment. Countries like Honduras, Nicaragua, and Guatemala, moreover, are poorer than Costa Rica and Panama. Their economies are dependent on exports, particularly of textiles, to the U.S. and compete directly with products from China. As a result, the economic incentives for working with Beijing are weaker in those countries. Overall, however, Taiwan faces an uphill battle as the initiative it announced in 2004 to promote FDI by Taiwan businesses in the region has so far resulted in the

approval of only one company going in under this program. Kung complained that MOFA so far has so far been doing only the absolute minimum to retain relations.

¶12. (C) Taipei is also attempting to deploy new approaches aimed at expanding its multilateral work and assistance programs in the region. ICDF Policy Planning Director Chou Yen-shin told AIT recently that ICDF is taking a "bottom up" approach in hopes of engaging USAID, NGOs, and other U.S. providers of foreign assistance in regions where Taiwan has diplomatic partners. Chou, a DPP political appointee sent to ICDF in 2004 to raise its profile, claimed that ICDF does not aim to "politicize" such exchanges but seeks to boost its image as a responsible donor of aid and assistance programs.

YOUNG